



## **The MacLellan Group**

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### **China's RMB Revaluation Snapshot**

The Chinese central bank announced today that it will no longer peg its currency to the US dollar. Instead, it will let the RMB float in a tight range (0.3%) against a basket of foreign currencies. At this point, we do not know the exact mix of the currency basket, or how much the initial pricing may change the RMB-dollar exchange rate.

China had pegged the RMB to the dollar since 1994 at a rate of 8.28 RMB per dollar. Immediately after the announcement today, the RMB strengthened to 8.11 RMB to the dollar, a 2% revaluation.

The long-term effect of this action on the US-China exchange rate is not clear. The US dollar has recently strengthened against most major currencies. If that trend were to continue, this move by China would have the potential to weaken the RMB compared to the dollar, not strengthen it as many US politicians would like to see. However, by pegging to a basket of currencies, the Chinese now have a better defense against any charges of exchange rate manipulation.

As a result of this move, the Chinese central banks will have the ability and need to diversify reserves away from US Treasury bonds and toward foreign bonds. Shortly after the announcement from China, US Treasury bond prices fell 1/2 point on the long end of the curve.

This decision by China is a positive to the extent that it signals some maturity in the Chinese financial system. China is now one step closer to true integration with the global economy. This is good news for capitalism. At the margin the Chinese decision is positive for US stocks, but a negative for US bonds. With the Fed continuing to tighten the US dollar should continue to strengthen.

There are also significant potential opportunities for company earnings gains from this revaluation process for US product producers exporting to China (ie: higher profit margins) and for US listed China based companies producing RMB sales & earnings (ie: higher dollar valued RMB earnings).

*Mr. Douglas MacLellan holds significant expertise in developing and financing businesses in emerging markets and industries, particularly in the pharmaceutical telecommunications, software and media industries. Over the past fifteen years, Mr. MacLellan has helped to develop and finance businesses in Bulgaria, Cambodia, Canada, Chile, China, Hungary, India, Korea, Madagascar, Russia and the United States. Mr. MacLellan is currently a*

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